

E20B
State Treasurer

Executive Summary

The State Treasurer is responsible for the management and protection of State funds and property.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u> <u>Actual</u>	<u>FY 19</u> <u>Working</u>	<u>FY 20</u> <u>Allowance</u>	<u>FY 19-20</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$5,254	\$5,236	\$6,159	\$922	17.6%
Adjustments	0	1,097	90	-1,007	
Adjusted General Fund	\$5,254	\$6,333	\$6,248	-\$85	-1.3%
Special Fund	1,224	2,599	2,360	-239	-9.2%
Adjustments	0	2	11	9	
Adjusted Special Fund	\$1,224	\$2,601	\$2,371	-\$230	-8.9%
Reimbursable Fund	35,496	39,320	40,690	1,370	3.5%
Adjustments	0	0	0	0	
Adjusted Reimbursable Fund	\$35,496	\$39,320	\$40,690	\$1,370	3.5%
Adjusted Grand Total	\$41,974	\$48,254	\$49,309	\$1,055	2.2%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The adjusted fiscal 2020 allowance increases by \$1.1 million from the adjusted fiscal 2019 working appropriation, largely due to increases in projected State Insurance Trust Fund (SITF) claims-related settlements and expenditures combined with increases in commercial premiums for specific and blanket coverages, all of which are reported in the State Treasurer's Office's reimbursable fund appropriation.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 18 Actual</u>	<u>FY 19 Working</u>	<u>FY 20 Allowance</u>	<u>FY 19-20 Change</u>
Regular Positions	60.00	60.00	60.00	0.00
Contractual FTEs	<u>0.03</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	60.03	60.00	60.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.21	7.02%
Positions and Percentage Vacant as of 12/31/18	7.00	11.67%

Key Observations

- The Financial Systems Modernization project has had complications, but the project is currently on schedule and within the estimated cost projections.
- Insurance costs have increased for State agencies as a result of the estimated SITF losses as well as an increase in commercial premiums.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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State Treasurer

Operating Budget Analysis

Program Description

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safekeeps all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State general obligation bond issues and, through the Capital Debt Affordability Committee, reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis. The State Treasurer annually reviews the total amount of State debt that prudently may be authorized for the next fiscal year.

The key goals of the State Treasurer's Office (STO) are to:

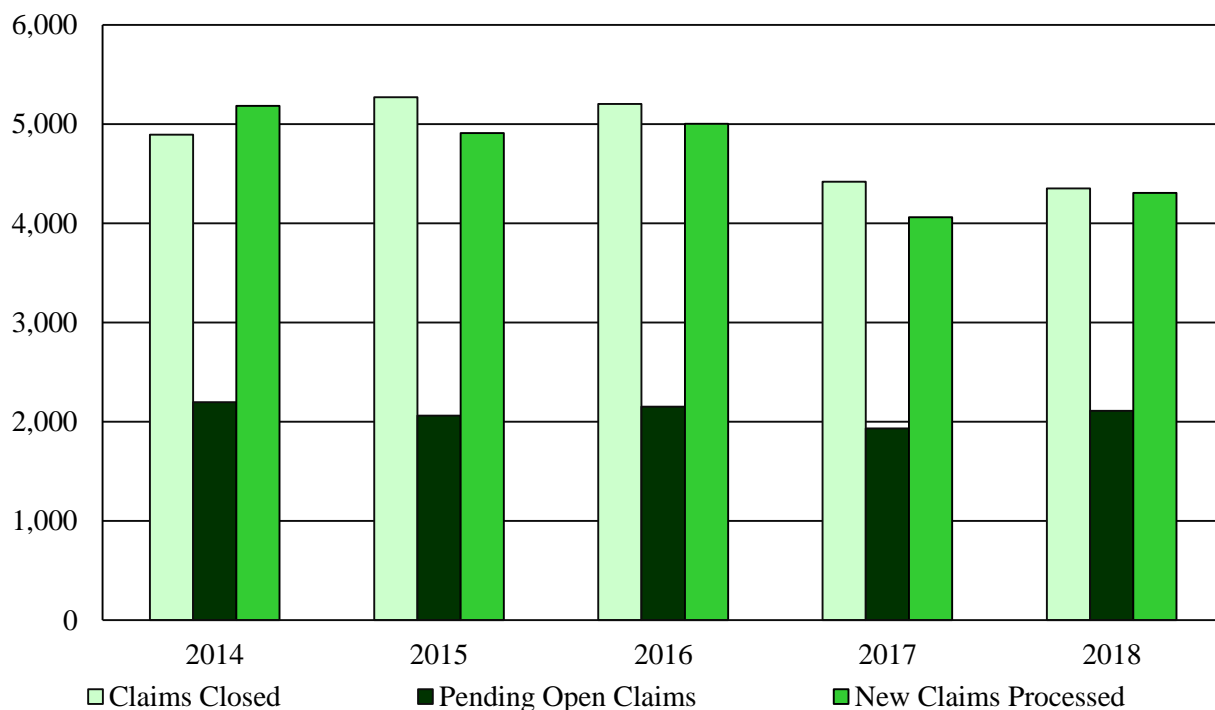
- accurately reconcile all Treasury State bank accounts;
- maximize investment earnings for the State's surplus funds in accordance with State laws and regulations;
- maintain and enhance the information technology (IT) infrastructure needed to provide ongoing support services to STO and the agencies that it serves; and
- provide statewide risk management through loss control, loss protection, loss restoration, and loss resolution.

Performance Analysis: Managing for Results

1. Insurance Claims

STO is responsible for administering the State's Insurance Program, which is comprised of both commercial policies and self-insurance. The Insurance Division in STO handles claims filed against the State, its agencies, and employees. **Exhibit 1** shows the number of new claims processed, open claims pending, and claims closed from fiscal 2014 through 2018. The higher levels of claims in fiscal 2014 to 2016 was the result of weather-related claims caused by road hazards, snow, and other extreme weather conditions. Since fiscal 2017, milder weather conditions have resulted in lower overall claims, but higher rain and flood-related damage has caused fluctuations in claims between fiscal 2017 and 2018.

Exhibit 1
Insurance Claims Opened, Pending, and Closed
Fiscal 2014-2018

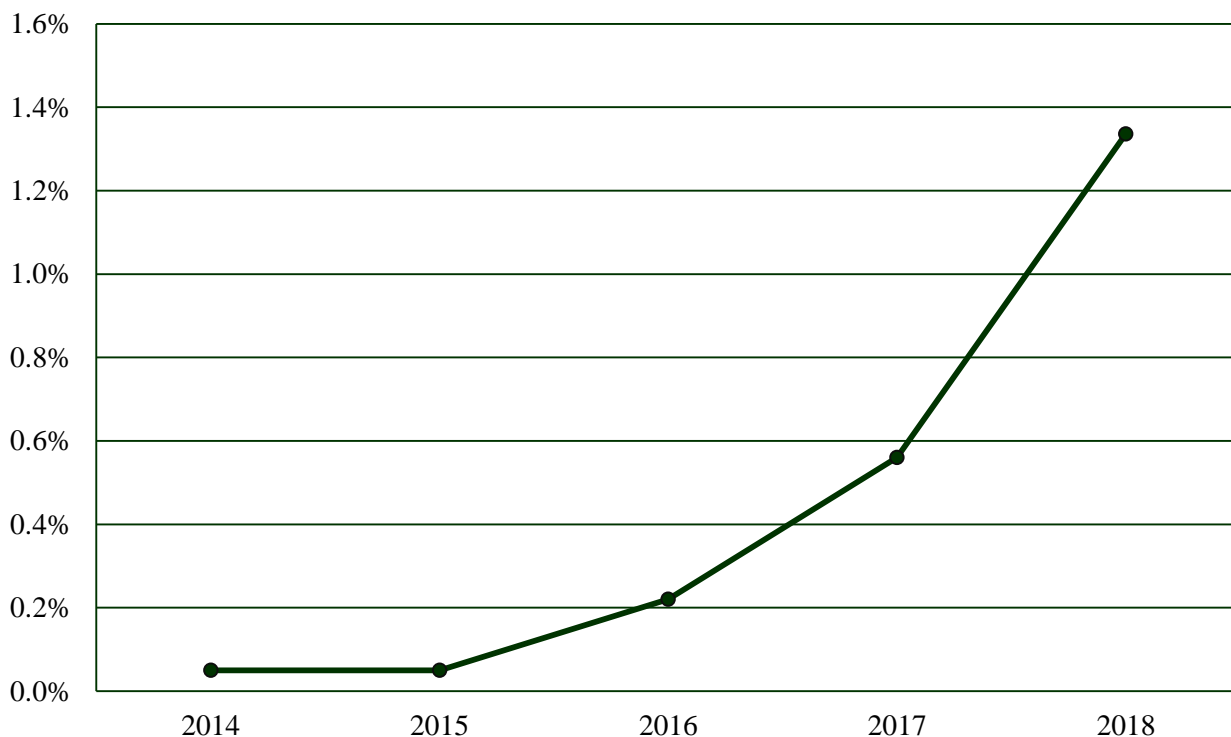


Source: State Treasurer's Office

2. Local Government Investment Pool

Sections 17-301 through 17-309 of the Local Government Article of the Annotated Code of Maryland establish the Maryland Local Government Investment Pool (LGIP) and assign to STO the responsibility for administering the pool. The pool provides all local government units a safe investment tool for the short-term investment of funds. **Exhibit 2** shows that the return on investment in LGIP has increased consistently since fiscal 2014 and that this trend is expected to continue.

Exhibit 2
LGIP Return on Investment
Fiscal 2014-2018



LGIP: Local Government Investment Pool

Source: State Treasurer's Office

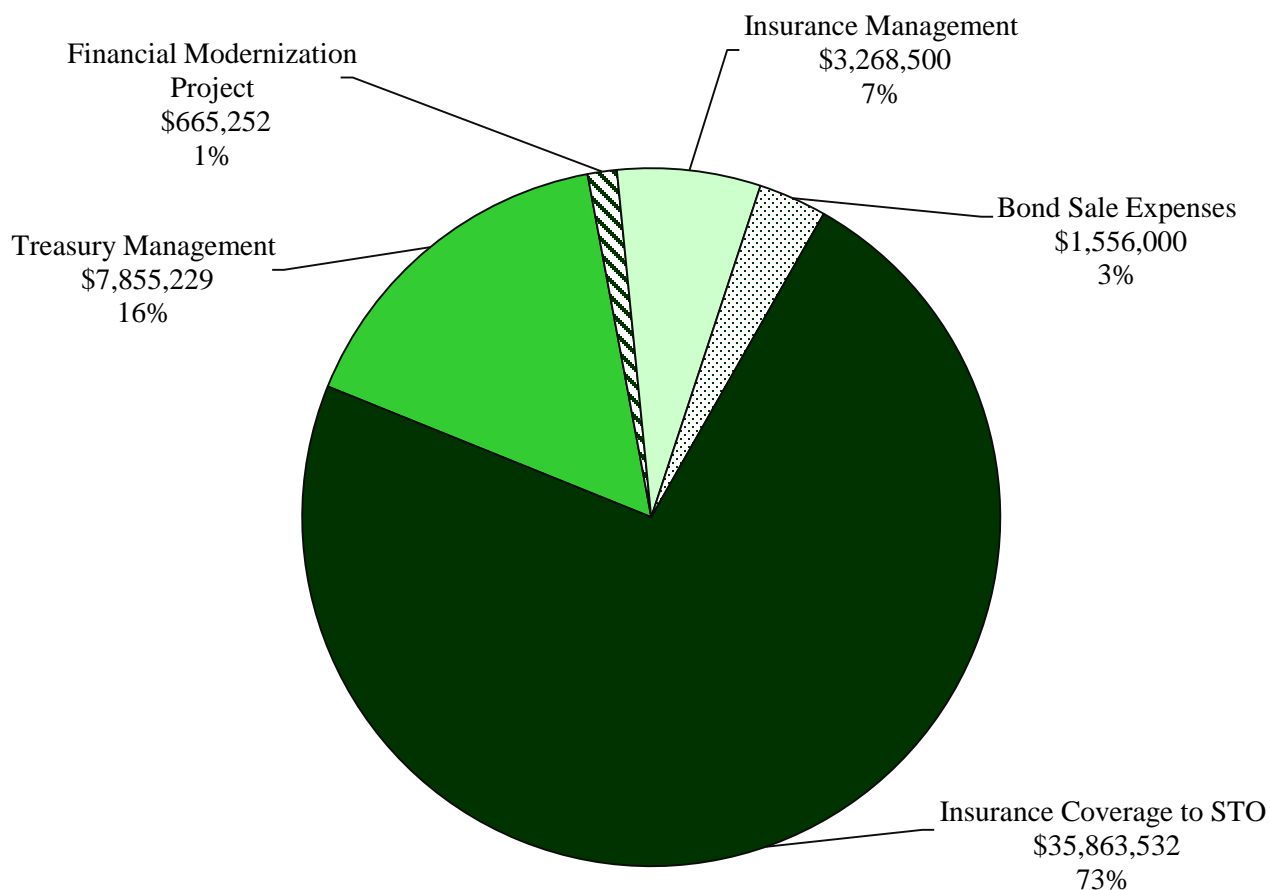
There is a proposed fiscal 2019 deficiency appropriation for STO for \$1,078,185 in general funds for the transition to and additional costs of the new depository contract. The statewide depository service contract was awarded to a new vendor, and as a result, there are additional costs associated with the transfer of bank accounts such as IT programming costs to modify BAI file interface and internal reconciliation system coding, costs for remote deposit scanning equipment per new contract, and costs for additional bank fees while both contracts are still in use until all accounts are fully converted. The agency will also receive \$20,540 (\$18,538 in general funds and \$2,002 in special funds) in centrally budgeted funding for costs associated with the April 1, 2019 one-time \$500 bonus and 0.5% general salary increase.

Fiscal 2020 Allowance

Overview of Agency Spending

The fiscal 2020 allowance for STO is \$49.3 million. As shown in **Exhibit 3**, 73% of expenditures (\$35.8 million) are reimbursable funds to cover State Insurance Trust Fund claim settlements and commercial premiums reimbursed by other State agencies. The remainder of the budget (\$13.6 million) is for operating expenses, including personnel and various contracts such as the costs associated with the new IT system.

Exhibit 3
Programmed Expenditures by Type
Fiscal 2020



STO: State Treasurer's Office

Source: State Treasurer's Office

Proposed Budget Change

As shown in **Exhibit 4**, the adjusted fiscal 2020 allowance increases by \$1.1 million, or 2.2%, from the adjusted fiscal 2019 working appropriation.

Exhibit 4 Proposed Budget State Treasurer (\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2018 Actual	\$5,254	\$1,224	\$35,496	\$41,974
Fiscal 2019 Working Appropriation	6,333	2,601	39,320	48,254
Fiscal 2020 Allowance	<u>6,248</u>	<u>2,371</u>	<u>40,690</u>	<u>49,309</u>
Fiscal 2019-2020 Amount Change	-\$85	-\$230	\$1,370	\$1,055
Fiscal 2019-2020 Percent Change	-1.3%	-8.9%	3.5%	2.2%

Where It Goes:

Personnel Expenses

Annualization of fiscal 2019 general salary increases and positions hired at higher than base salary	\$171
General salary increase (3% effective July 1, 2019, and annualizing 0.5% increase effective April 1, 2019)	97
Retirement contributions	78
Employee and retiree health insurance	52
Reclassifications	41
Other fringe benefits	12
Fiscal 2019 \$500 bonus effective April 1, 2019	-17
Turnover adjustments, increasing from 4% to 4.21%	-32

Other Changes

Statewide insurance coverage to cover an increase in commercial premiums and losses in the State Insurance Trust Fund	1,284
Costs associated with the new depository banking contract and investment pricing management	693
Insurance management administration costs	101
Costs for a replacement vehicle with over 100,000 miles	24
Legal services for issuance of general obligation debt	15
Master lease contracts for computers	13
Costs associated with the Financial Modernization project	-97

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Where It Goes:

Bond sale expenses	-345
Fiscal 2019 deficiency appropriation to support the new depository contract and Microsoft 365 application	-1,078
Other	43
Total	\$1,055

Note: Numbers may not sum to total due to rounding.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Current and Prior Year Budgets
State Treasurer’s Office
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$5,286	\$2,209	\$0	\$40,336	\$47,831
Deficiency/Withdrawn Appropriation	-33	-4	0	0	-37
Cost Containment	0	0	0	0	0
Budget Amendments	2	0	0	-1,520	-1,518
Reversions and Cancellations	0	-982	0	-3,321	-4,303
Actual					
Expenditures	\$5,254	\$1,224	\$0	\$35,496	\$41,974
Fiscal 2019					
Legislative Appropriation	\$5,213	\$2,596	\$0	\$39,320	\$47,130
Budget Amendments	23	3	0	0	25
Working					
Appropriation	\$5,236	\$2,599	\$0	\$39,320	\$47,155

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

Fiscal 2018

The fiscal 2018 legislative appropriation for the State Treasurer’s Office decreased by \$5.8 million. General funds decreased \$33,000 for a withdrawn appropriation in Section 19 of the fiscal 2019 Budget Bill due to a surplus in the health insurance account. There is also a \$1,780 increase by budget amendment for telecommunications.

The special fund appropriation decreased \$4,000 for the withdrawn appropriation in Section 19 of the fiscal 2019 Budget Bill. There was \$982,000 in canceled special funds, including \$649,000 for lower costs associated with debt issuance and \$333,000 for vacancies.

The reimbursable fund appropriation decreased by budget amendment by \$1.5 million for the Financial Systems Modernization project. There was \$3.3 million in canceled reimbursable funds for lower than anticipated insurance costs, vacancies, and administrative costs.

Fiscal 2019

To date, the fiscal 2018 legislative appropriation increased by \$25,000 for a general salary increase effective January 1, 2019, that was centrally budgeted.

Appendix 2
Major Information Technology Projects
State Treasurer
Financial Systems Modernization

Project Status	Implementation.	New/Ongoing Project:	Ongoing.
Project Description:	International Business Machines (IBM) has designated an end-of-service date of December 31, 2018, for the current midrange AS400/i5 Treasury Management System (TMS) and Insurance Management System (IMS). The AS400/i5 is the core financial interface system and is critical to the ability of the State Treasurer's Office (STO) to execute the Treasurer's constitutional and statutory responsibilities to disburse funds as warranted by the Comptroller's Office. In addition, these systems are used for daily cash flow management and reconciliation functions, automated clearinghouse and wire transfers for Statewide receipts and disbursements, investment of State funds, daily budget and accounting functions, and overall State Insurance Trust Fund claims management processing and recordkeeping. This project will aim to replace the current system with a server-based TMS and IMS. The solution to replace the core financial system will be a scalable solution that can be leveraged across the State by other agencies. Normalizing the data and solution to a centralized scalable solution will provide greater return on investment and allow for streamlined maintenance.		
Project Business Goals:	Provide modern TMS and IMS to support the critical functions of STO with an emphasis on security and service delivery to constituents.		
Estimated Total Project Cost:	\$6,663,072	Estimated Planning Project Cost:	\$63,967
Project Start Date:	December 1, 2016.	Projected Completion Date:	2021.
Schedule Status:	The project is currently on schedule, but there are factors that could cause delays in the future. STO needs new personal computers (PC) to install Microsoft Office 365 in order for the new system to be compatible with the desktops. The purchase of the new PCs could affect the current implementation of the project.		
Cost Status:	This project is currently on budget.		
Scope Status:	The scope of this project is to provide modern TMS and IMS to support the critical functions of STO with an emphasis on security and service delivery to constituents.		
Project Management Oversight Status:	There is funding budgeted for continued project management.		
Identifiable Risks:	Although the current system was designated as out of service in December 2018, STO has a one-year extended support contract with IBM to continue support services for the current system. The current risk is the ability to find replacement parts for the current hardware in the case of malfunction because IBM has stopped producing them. STO is currently working to secure a contract with another company with hardware part reserves so that replacements are available if necessary.		
Additional Comments:	The agency is also managing the transition of the statewide depository contract that expired September 30, 2018. This is a significant transition to the new bank accounts and processing of checks statewide, which could impact the timing of the project.		

Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	3,389.0	939.0	818.0	0.0	0.0	0.0	818.0	5,146.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Software	826.0	340.0	351.0	0.0	0.0	0.0	351.0	1,517.0
Total Funding	\$4,215.0	\$1,279.0	\$1,169.0	\$0.0	\$0.0	\$0.0	\$1,169.0	\$6,663.0

**Appendix 3
Object/Fund Difference Report
State Treasurer**

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	60.00	60.00	60.00	0.00	0%
02 Contractual	0.03	0.00	0.00	0.00	0.0%
Total Positions	60.03	60.00	60.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 5,973,425	\$ 6,098,027	\$ 6,419,503	\$ 321,476	5.3%
02 Technical and Special Fees	3,362	4,150	4,150	0	0%
03 Communication	83,409	83,428	36,450	-46,978	-56.3%
04 Travel	19,673	10,090	10,090	0	0%
07 Motor Vehicles	1,750	2,482	26,631	24,149	973.0%
08 Contractual Services	5,984,575	6,042,552	6,521,859	479,307	7.9%
09 Supplies and Materials	187,294	194,520	190,380	-4,140	-2.1%
10 Equipment – Replacement	96,558	103,692	116,320	12,628	12.2%
11 Equipment – Additional	20,732	0	0	0	0.0%
13 Fixed Charges	29,603,438	34,616,273	35,883,130	1,266,857	3.7%
Total Objects	\$ 41,974,216	\$ 47,155,214	\$ 49,208,513	\$ 2,053,299	4.4%
Funds					
01 General Fund	\$ 5,254,328	\$ 5,236,188	\$ 6,158,564	\$ 922,376	17.6%
03 Special Fund	1,223,510	2,598,957	2,360,226	-238,731	-9.2%
09 Reimbursable Fund	35,496,378	39,320,069	40,689,723	1,369,654	3.5%
Total Funds	\$ 41,974,216	\$ 47,155,214	\$ 49,208,513	\$ 2,053,299	4.4%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

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**Appendix 4
Fiscal Summary
State Treasurer**

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Treasury Management	\$ 6,587,619	\$ 6,864,693	\$ 7,855,229	\$ 990,536	14.4%
02 Major Information Technology Development	2,009,250	762,565	665,252	-97,313	-12.8%
01 Insurance Management	3,013,774	3,062,308	3,268,500	206,192	6.7%
02 Insurance Coverage	29,508,054	34,579,648	35,863,532	1,283,884	3.7%
01 Bond Sale Expenses	855,519	1,886,000	1,556,000	-330,000	-17.5%
Total Expenditures	\$ 41,974,216	\$ 47,155,214	\$ 49,208,513	\$ 2,053,299	4.4%
General Fund	\$ 5,254,328	\$ 5,236,188	\$ 6,158,564	\$ 922,376	17.6%
Special Fund	1,223,510	2,598,957	2,360,226	-238,731	-9.2%
Total Appropriations	\$ 6,477,838	\$ 7,835,145	\$ 8,518,790	\$ 683,645	8.7%
Reimbursable Fund	\$ 35,496,378	\$ 39,320,069	\$ 40,689,723	\$ 1,369,654	3.5%
Total Funds	\$ 41,974,216	\$ 47,155,214	\$ 49,208,513	\$ 2,053,299	4.4%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.